

## Stock touting

Contributed by Travis Morien

Stock touting is a practice similar to pump and dump, though it need not be perpetrated by a majority shareholder or market maker.

Stock touting involves the promotion over the Internet, or in a newsletter, of a stock in your portfolio, in order to generate purchasing interest and push up prices.

Many Internet bulletin board, including aus.invest, allow users to take on a variety of aliases. These aliases then start a "dialogue" in newsgroups where initially what appears to be a hapless newbie starts asking about a stock, or asks for some tips, and then a dozen posters answer the thread to promote this particular stock or throw on some fuel by talking about a variety of developments going on at that company.

A typical exchange might start like this:

On July 12, 2001, John. B. Newbie (johnbn@hotmail.com) said in aus.invest :  
"Hi aus.invest, I am looking at investing in Golden Mining (GPM). My brother holds \$10,000 worth, which his broker gave a "strong buy" rating, something about them being about to announce a new strike. I was just wondering what some of you guys think of this stock, is it a buy at 0.0025c?"

Bye for now.

John B Newby"

What then follows is a rush of posters that appear to have come out of nowhere, where did all these lurkers come from and how long have they been reading aus.invest? These are all guys that you've never seen before, mostly with a variety of fake or disposable (Yahoo, Hotmail etc) email addresses. They all promote the stock shamelessly, conversing with each other, occasionally having minor flame wars among themselves, but all in some way exposing new and inevitably favourable news about this stock, including "inside information", pointers to how well this stock has done lately, comparisons with other stocks that have done really well, pointers to good news about the stock on genuine sites (if there is any), references to other newsgroups where simultaneously discussions like this are going on and the stock is receiving favourable attention there. The stock starts getting touted in spammed "research reports" sent out all over the place that seem to come from brokers or analysts who are offering this free report as a promotion for their own business.

A really determined stock touter may create dozens of aliases and start long threads, cross-posted to numerous newsgroups and web discussion boards. The one or two genuine posters that bother replying get drowned out in a sea of noise from all of the others (who may be one guy, or a group of scammers all in on it).

Should the stock price fall before the tout has had all his sell orders filled, the thread might start alleging insider trading and manipulation of the stock by short sellers who want to get hold of cheap stock. Once the price goes up again the touts sell the rest of their holdings and everyone else is left holding the bag.

Apart from profits in selling the stock itself, the touts may take large commissions from the directors of the companies whose stock is being touted. The company may wish to sell its stock and rather than go through all the hassle of a float simply approach a crooked broker. The broker may take a huge fee, or get an allocation of stock and options for its troubles. The broker may sell its own holdings at the same time as making the recommendation, a practice known as "scalping". Does touting really work?

Yes, apparently stock touting does work... for the scammers. It is very costly to those people taking the advice of the touts though. There is even academic research on the subject.

We assess the impact of spam that touts stocks upon the trading activity of those stocks and sketch how profitable such spamming might be for spammers and how harmful it is to those who heed advice in stock-touting e-mails. We find convincing evidence that stock prices are being successfully manipulated through spam. We suggest that the effectiveness of spammed stock touting calls into question prevailing models of securities regulation that rely principally on the proper labeling of information and disclosure of conflicts of interest to protect consumers, and we propose several regulatory and industry interventions.

Based on a large sample of touted stocks listed on the Pink Sheets quotation system, we find that stocks experience a significantly positive return on days prior to heavy touting via spam. Volume of trading responds positively and significantly to heavy touting. For a stock that is touted at some point during our sample period, the probability of it being the most actively traded stock in our sample jumps from 4% on a day when there is no touting activity to 70% on a day

when there is touting activity. Returns in the days following touting are significantly negative.

Source: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=920553](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=920553)